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TAGS: EFIN EAID ECON PREL VM
SUBJECT: HIGH PRICED IPOS HURTING VIETNAM'S EQUITISATION PROCESS

Ref: 2007 Hanoi 1561

¶1. (U) THIS CABLE IS SENSITIVE BUT UNCLASSIFIED. NOT FOR INTERNET.

¶2. (SBU) Summary: Vietnam's process of "equitisation," or partial privatization, of large state-owned enterprises began in July, 2007. High initial auction prices have discouraged strategic investors from buying in to Vietnam's "blue chip" companies. With global equity markets sagging, private investors also appear to taking a second look at the high share prices being set by the GVN. End summary.

¶3. (U) To date, the GVN has "equitised," or partially privatized, over 3,700 state-owned companies with total chartered capital of 94 trillion dong (approx. 5.857 billion USD). Up until the summer of 2007, these equitisations had primarily been of small and medium sized companies that were not considered to be amongst the "blue chips" of Vietnam's state-owned enterprises (SOEs). The process for equitisation is set out in Decree 109, revised shortly before the equitisation of larger companies began last summer. Partial privatization begins with an initial public offer (IPO) in which the initial public share auction based on a floor price set by the GVN, closely followed or preceded by the sale of a set amount of shares to a strategic investor (with management and technological expertise) based on the initial auction price. Winning bidders at the initial public auction actually pay for their shares several weeks later. Equitised companies are not required to list on the stock exchange.

¶4. (SBU) The GVN began equitising large SOEs starting in July, 2007, with the IPO of Bao Viet, Vietnam's largest insurance company (reftel). The GVN was not able to bring in a strategic investor at its desired price prior to or shortly after the auction, and many bidders lost confidence and refused to pay for their shares when the gray market price dropped following the IPO. The failure of the Bao Viet equitisation caused much consternation and reflection within the GVN, and led many inside and outside the government to believe the government would try to remedy the process by restructuring it in subsequent equitisations by bringing in the strategic investor at an earlier stage and at a more discounted share price.

¶5. (SBU) The way the government carried out the recent equitisations of Vietcombank and Sabeco, however, suggests the government has not restructured the process. In the run-up to the equitisation of Vietcombank, one of Vietnam's four large state owned commercial banks (SOCBs), the government negotiated with Goldman Sachs, GE Money, and Nomura with the aim of selecting one to be the strategic

investor. These negotiations failed because the GVN demanded a share price that was too high. Thus, Vietcombank launched its IPO on December 26, 2007 without a strategic investor in place. Even though Vietcombank sold all available shares at the auction (worth 6.5% of the total value of the bank), some local fund managers believe other SOEs did most of the buying under pressure from the GVN (in the local parlance, the GVN "stuffed" the shares into the other SOEs). Various local funds, such as Vinacapital, deliberately sat on the sidelines and chose not to buy any of the shares of the IPO because the "auction" set price was so high (100,000 dong per share, around 6 USD, or about 6-7 times book value.) Vietcombank officials, in a recent meeting with the visiting Treasury Attach from Singapore and Econoffs, claimed that the buyers (those who paid a 10% deposit of the auction price on December 26) completed their purchase and paid over 90% of the auctioned shares on January 20th, a large improvement over the Bao Viet auction. Private equity investors in HCMC, however, told us the figure was actually much lower, only around 40-60%. In other words, anywhere from 10% (conservative estimate based on Vietcombank official) to 60% (liberal estimate) of the people who won at the auction in December chose to walk away three weeks later, preferring to lose their deposits than pay too much for the shares. We cannot confirm which figure is accurate. In the meantime, Vietcombank states that it will list on the stock market in the spring of 2008, with or without a strategic investor.

¶6. (SBU) The equitisation of Sabeco, a state-owned beverage producer that accounts for about 50% of local beverage sales, appears to be following a similar path. Its IPO auction on January 29 resulted in only 61% of the available shares being sold. Shares were priced at a floor of 72,000 dong (about 4.50 USD), or 72 times 2007 earnings. Once again, no strategic investor would bite at those prices. Although some press reports claim that lack of investor interest stems from the general slowdown in the markets,

local analysts point to the over-valued auction price as being the deterrent for most. The GVN just announced that the equitisation of SOCB Agribank has now been pushed back from 2008 to 2009.

¶7. (SBU) Comment: The rationale used by the GVN to justify high prices for strategic investors has been that Vietnam does not want to sell off its assets too cheaply to foreign investors, like China or Russia have been accused of doing in the past. The strategic investors have pushed back, noting that they carry greater risk than the average investor and therefore should be given a discount off the public auction price. Now that the initial frenzy surrounding the Vietnamese stock market has cooled, it seems that even the local traders are not biting at such optimistic share prices. The local media is beginning subtly to question the wisdom of the IPO process and the valuations used by the GVN to set auction prices, indicating that perhaps the public is being prepared for a softening of the GVN's stance on strategic investors. With the equitisation of over 2,000 SOEs remaining, the GVN still has time to get it right. End comment.

MICHALAK